STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

OF

SENTINEL SECURITY LIFE INSURANCE COMPANY

OF

SALT LAKE CITY, UTAH

as of

December 31, 2006

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February 15, 2008

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Department of Insurance
State of Virginia
Richmond, Virginia

Honorable Morris Chavez
Secretary, Western Zone
Department of Insurance
State of New Mexico
Santa Fe, New Mexico

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioners:

Pursuant to instructions and in accordance with Utah Code Annotated (U.C.A.) Title 31A and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination was made of the financial condition and affairs of

SENTINEL SECURITY LIFE INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to as the "Company," as of December 31, 2006.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2004, through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

A zone participation call was distributed through the NAIC Examination Tracking System. No other states requested to participate in the financial examination. The Utah examiners represented the Western zone.

Certificates of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Company's management at the initiation and conclusion of the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the Utah Insurance Department (Department) and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the NAIC.

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2006. Assets were verified and valued, and liabilities were determined or estimated.

The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment in addition to work performed by external audit functions. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

The Company retained the services of a certified public accounting firm, Larson & Company, to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit workpapers were relied upon when deemed applicable.

Status of Prior Examination Findings

The previous examination was performed by the Department as of December 31, 2003. Important points and recommendations noted in the prior examination report have been addressed by the Company.

HISTORY

General

The Company was incorporated in the state of Utah on May 12, 1948, under the name "Sentinel Mutual Insurance Company". The Company was granted a certificate of authority in July 1948 to conduct a life insurance business as a mutual benefit insurer. The Company's organization was sponsored by the Funeral Directors' and Embalmers' Association of Utah. Further comments are included under the caption "Corporate Records" in this examination report.

The articles of incorporation were amended on July 16, 1954, changing the name of the Company to Sentinel Security Life Insurance Company. The Company also converted to a stock corporation at this same time.

The board of directors approved an amendment to the Company's bylaws in a meeting held on February 21, 2006. The bylaws were amended to establish the position of Vice Chairman. The Vice Chairman handles the duties of the Chairman of the Board when the Chairman of the Board is unavailable.

Capital Stock

Authorized common stock consisted of 500,000 shares with a par value of $7 per share as of December 31, 2006. The total common stock outstanding at December 31, 2006, was 359,526 shares, including 63,549 shares of treasury stock held. The articles of incorporation were amended and approved by the Department in April 2000, to increase the par value of the common stock from $3 to $7 per share.

U.C.A. § 31A-1-301(28)(d) states "There is a rebuttable presumption of control in a person who directly or indirectly owns, controls, holds with power to vote, or hold proxies to vote 10% or more of the voting securities of another person." Earl L. Tate, (Tate), owner of RAVAL Investment Company, (Raval) and Edward M. Grimm II (Grimm), majority shareholder of Analine Management Company, (Analine.) each own shares of the Company. Through their direct and indirect ownership Tate and Grimm were both controlling persons of the Company in accordance with the definition stated in U.C.A. § 31A-1-301(30). Earl L. Tate is both a director and president of the Company, while Grimm is a director and the secretary.

Dividends to Stockholders

The board of directors approved stockholder dividend distributions during the examination period as follows:

Date Declared	Date Paid	Rate Per Share	Amount Paid
February 17, 2004	April 1, 2004	$1.40	$418,561
February 15, 2005	April 1, 2005	1.50	448,259
February 21, 2006	April 3, 2006	1.50	444,592

Pursuant to U.C.A. §31A-16-106(2) the dividends paid were not considered extraordinary.

Management

The bylaws of the Company indicated the number of directors may be not more than twenty-five (25) or less than five (5).

The following persons served as directors of the Company as of December 31, 2006:

Name and Residence	Principal Occupation
Thomas W. Bartlett Salt Lake City, Utah	Chairman of the Board Sentinel Security Life Insurance Company
Earl L. Tate Tooele, Utah	President Sentinel Security Life Insurance Company
Edward M. Grimm II	Secretary Sentinel Security Life Insurance Company
Alva R. Wing	Funeral Director Wing Mortuary, Inc.
Charles W. Lindquist	Funeral Director Lindquist Mortuary
Fred G. Cheney	Retired
Lenard A. Wing	Funeral Director Wing Mortuary, Inc.
Richard E. Felt	Retired

The Company's bylaws provide for principal officers to consist of President, Vice-President, Secretary and Treasurer.

The officers of the Company as of December 31, 2006, were as follows:

Principal Officer	Office
Thomas W. Bartlett	Chairman of the Board
Earl L. Tate	President
G. Daniel Acker	Vice President and Treasurer
Edward M. Grimm II	Secretary

The members of the Company's committees as of December 31, 2006, were as follows:

<u>Investment Committee Members</u>

Thomas W. Bartlett
Earl L. Tate
Edward M. Grimm II

<u>Audit Committee Members</u>

Clyde A. Allen, Chairman*
Richard E. Felt
Charles W. Lindquist

*Expired in January 2007.

<u>Compensation Committee Members</u>
Edward M. Grimm II
Charles W. Lindquist
Richard E. Felt

<u>Nomination Committee Member</u>
Lenard A. Wing

U.C.A. § 31A-5-412(1) provides that each of the committees of the board of directors shall consist of three or more directors serving at the pleasure of the board. The board of directors in its meeting held on January 17, 2006, passed a motion to form a Nomination Committee with Lenard A. Wing as its Chairman, who would select the committee members and draft a charter for the committee. The minutes of the board of directors for the year 2006 did not reflect any other member appointed to this committee. Subsequent to the examination date, in a meeting held on January 15, 2008, the board of directors resolved to nominate two additional members to the Nomination Committee: Alva R. Wing and Earl L. Tate.

Conflict of Interest Procedure

The Company had an established written procedure for disclosure to its board of directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which was in or was likely to conflict with the official duties of such person. Written disclosures made during the period of examination were reviewed without exceptions.

Corporate Records

A review of the minutes of the board of directors and stockholders meetings revealed conformity with the requirements of the articles of incorporation concerning matters covered and authorizations made. The minutes approved and supported Company transactions.

The previous examination report as of December 31, 2003, was distributed to the board of directors at the meeting held on January 18, 2005; the board approved the minutes of that meeting on February 15, 2005.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company was not a party to any acquisitions, mergers, disposals, dissolutions or purchase and/or sales through reinsurance during the examination period.

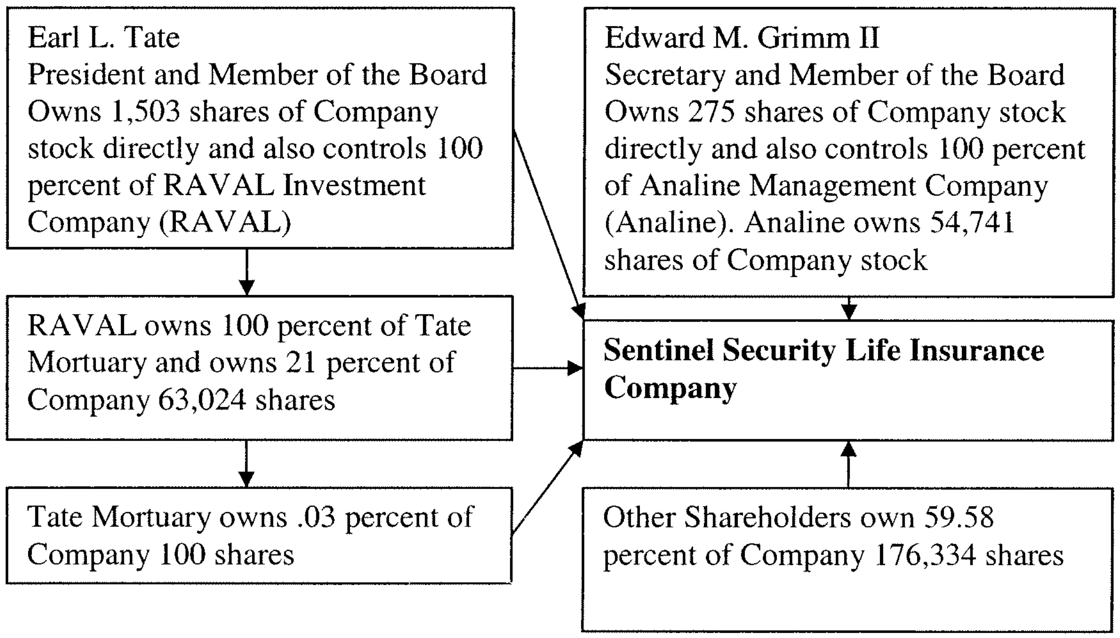
Surplus Debentures

The Company did not have any surplus debentures outstanding as of December 31, 2006.

AFFILIATED COMPANIES

As stated under the "Capital Stock" section of this examination report, the Company is directly and indirectly controlled by two individuals Earl L. Tate and Edward M. Grimm II according to the definition set forth in U.C.A. § 31A-1-301(28)(d), as they both owned more than 10% of the voting securites of the Company. On January 7, 2008, the Utah Insurance Commissioner approved a request from Earl L. Tate and Edward M. Grimm II for a waiver to file the audited financials for controlling entity with the Department. In lieu of such statements, the Department will accept the signed balance sheets and tax returns that were already filed with the Department. The waiver was granted for a period of one year with future annual extensions on request of waiver from the ultimate controlling parties.

A Company organizational chart illustrating the holding company structure follows:



Transactions with Affiliates

The Company had neither ownership interest in, nor agreements with, affiliated companies.

FIDELITY BOND AND OTHER INSURANCE

As of the examination date, the Company had fidelity bond coverage of $250,000 with a $0 deductible. The amount of fidelity bond insurance coverage recommended by the Financial Condition Examiners Handbook of the NAIC, for an insurer of the Company's size is between $300,000 and $350,000. Subsequent to the examination date and as of January 16, 2008, the Company increased its fidelity coverage to $350,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provided a profit sharing plan to qualifying employees. The Company had an adoption agreement with a local bank whereby the bank served as trustee of the employee profit sharing plan. The plan and related trust or custodial account, according to an Internal Revenue Service letter, qualified under Section 401 of the Internal Revenue Code.

Group Life and Health Insurance

The Company provided full-time employees with group life and medical expense benefits. Employees were eligible after the first month of full-time employment. The benefits were provided to employees on a non-contributory basis. Optional dependent coverage for hospital, surgical, and major medical benefits on a partial contributory basis was also offered.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company was required, as of December 31, 2006, to maintain a deposit in the amount of its minimum capital requirement. The Company's minimum capital requirement was $400,000 as determined by U.C.A. § 31A-5-211(2)(a).

The following schedule presents the statutory deposits made through the Department for the primary benefit of all policyholders as of December 31, 2006. The additional deposit placed with the Department was done to satisfy the requirements of the State of Hawaii.

Description	Par Value	Book/Adjusted Carrying Value	Fair Value
US Treasury Sec Stripped	$ 400,000	$ 320,514	$ 350,036
US Treasury Bond	1,000,000	493,255	504,730
ITT Corporation Bond	50,000	49,838	51,418
Morgan Stanley Dean Witter	100,000	104,353	106,439
Pennzoil Company Bond	50,000	50,271	55,709
TVA - Linked Call Strips	525,000	137,286	78,750
Totals	$ 2,125,000	$ 1,155,517	$ 1,147,082

Special deposits made by or through the respective state insurance departments not held for the benefit of all policyholders, but held for the policyholders, claimants and creditors of a particular jurisdiction follow:

Description	Par Value	Book/Adjusted Carrying Value	Fair Value
US Treasury Bond Fed Strip	$ 315,000	$ 295,073	$ 301,770

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Department records reflect only 2 forms filed by the Company [59A rev 04/07 and 88 rev 01/07], which were filed subsequent to the examination period. The Company stated the other policy forms were filed with the Department, however, the Company was unable to provide evidence of the form cover letter with the date stamped for policy approval and use. The Examiner was unable to verify compliance with U.C.A. 31A-21-201 (5)(b), which states the insurer shall maintain a record required under Subsection (5)(a) for the balance of the current year, plus five years from: (i) the last day on which the form is used; or (ii) the last day any policy that is issued using the form is in effect.

The Department is making a recommendation to conduct a limited scope Market Conduct examination, to ensure all forms in use are filed with the Department.

Territory and Plan of Operation

The Company was licensed to conduct insurance sales in the following states:

Arizona	Idaho	Nevada	South Dakota
California	Iowa	New Mexico	Utah
Colorado	Montana	North Dakota	Washington
Hawaii	Nebraska	Oregon	Wyoming

As of December 31, 2006, the Company had approximately one-hundred and ninety (190) appointed life insurance agents and the Company received at least one (1) application for life insurance from fifty-eight (58) of them. All contracted agents were under the direction of an employee agency director

Advertising and Sales Material

The Company primarily used direct mail and point of sale brochures in its sales and advertising effort. Advertising methods and sales materials seem to be compliant with applicable statutes, rules, and regulations.

Treatment of Policyholders

There were no complaints received by the Company in the state of Utah, and no formal complaints were filed with the Department. Procedures are in place to adequately track all complaints.

REINSURANCE

Assumed:

The Company did not assume any reinsurance during the examination period.

Ceded:

Effective July 1, 2006, Optimum Re Insurance Company (Optimum Re), through a novation agreement, purchased the Company's business from Generali USA Life Reassurance Company (Generali). The novation agreement effectively substituted Optimum Re for Generali. During 2003, also through a novation agreement, the same business was purchased by Generali from Business Men's Assurance Company of America.

As of December 31, 2006, the Company reinsured its life insurance business under an agreement which provided automatic yearly renewable term life reinsurance on standard and substandard lives between the ages of 0 through 75 inclusively, up to a maximum of 400 percent of the Company's retention. It included provisions for waiver of premium and for facultative reinsurance.

The Company's retention limits under the automatic yearly renewable term life agreement were as follows:

Ages	Standard	Substandard Tables 1-3	Substandard Tables 4 - 5	Substandard Tables 6 - 16
All Ages	$15,000	$15,000	$12,000	$5,000 or 50% of the risk whichever is lower

A bulk agreement with the same reinsurer provided for reinsurance on accidental death benefits with a retention on any covered accidental death benefit of $15,000.

ACCOUNTS AND RECORDS

As of December 31, 2006, the Company's accounting system consisted of a general ledger, registers, statistical and other records maintained primarily on information systems equipment and software. An IBM AS/400 minicomputer was utilized which is accessed through personal computers. The Company also utilized annual statement preparation software Schedule D Reporter to account for all of its investments (Bonds, Common & Preferred stocks) and to prepare the investment related pages in its 2006 annual statement.

Deficiencies encountered by the examination relating to accounts and records include:

1. The minutes of the meetings of the shareholders did not contain evidence that directors' and officers' compensation and benefits were approved by the shareholders as required by U.C.A. § 31A-5-416(2).

2. Utah Administrative Code (U.A.C.) Rule R590-162-5 (C) General Requirements of the Department provides the Company shall give the Commissioner timely written notice if any person appointed or retained as an appointed actuary replaces a previously appointed actuary. The Company did not provide such notification to the Utah Insurance Commissioner.

3. The Company had two custodial agreements with First Security Bank, N.A., (subsequent name change to Wells Fargo Bank, N.A). The two custodial agreements did not comply with provisions of U.A.C. Rule R590-178-4, as amended on September 19, 2006. The Company had book-adjusted carrying value of Bonds of $15,061,565, Preferred stocks of $19,300,000, and Common stocks of $1,120,558 on deposit under these two custodial agreements.

   Subsequent to the examination date on December 18, 2007, the Company entered into two new custodial agreements that superseded the old agreements. These agreements were reviewed during examination and were found to be in compliance with U.A.C. Rule R590-178-4. Therefore, the bonds, preferred stocks and common stock on deposit with Wells Fargo Bank, N.A., as of December 31, 2006, were treated as admitted for this examination report. The board of directors passed a resolution to approve the custodial agreements on the same day.

   Additional comments on custodial agreements are included under the caption "SUBSEQUENT EVENTS AND OTHER DISCLOSURES" in this examination report.

4. During the audit the external auditors noted the Company was amortizing Electronic data processing (EDP) equipment over a period of five years which is contrary to the provisions of SSAP No. 16, paragraph 3, which states EDP should be depreciated for a period not to exceed 3 years.

5. Schedule E – Part 3, Special Deposits of the Company' 2006 annual statement reported incorrect amounts of book/adjusted carrying value of $951,055 and fair value of $933,516 for the State of Utah statutory deposits. The correct amounts of book/adjusted carrying value and fair value was $1,155,517 and $1,147,082 respectively.

6. Exceptions were noted during the reconciliation of Schedule D reported in the annual statements for the period covered by this examination as follows:

- A difference of $40,316 was noted in the bond reconciliation for year 2006. The ending balance per the Schedule D reconciliation was $17,033,250 as compared to the Asset page 2, line 1 of the 2006 annual statement which reflected an amount of $16,992,934.

- A difference of $100,000 was noted in the reconciliation of common stocks in the 2006 Schedule D, because the write-off on Montana Power Capital was reported twice; once as an unrealized loss and once as a realized loss. The general ledger and the Asset page 2 of the annual statement were correct because in 2006 a journal entry was entered to transfer the $100,000 loss from the unrealized loss account to the realized loss account.

- A difference of $155,212 was noted in the reconciliation of common stocks for year 2006 due to a mutual fund dividend reinvestment that was reported twice; both in the year 2005 and 2006 Schedule D.

  The reconciling differences between Schedule D and the Asset page in all of the findings noted above did not impact the amounts reported by the Company in its general ledger and the Asset page 2 of the 2005 and 2006 annual statements.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2006

SUMMARY OF OPERATIONS for the Year Ended December 31, 2006

RECONCILIATION OF CAPITAL AND SURPLUS – January 1, 2003 through December 31, 2006

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2006

ASSETS

	Net Admitted Assets
Bonds	$ 16,992,934
Preferred stocks	19,799,350
Common stocks	8,405,389
Mortgage loans on real estate: First liens	2,309,540
Properties occupied by the company	232,662
Properties held for sale	40,271
Cash, cash equivalents and short-term investments	1,760,263
Contract loans	843,391
Investment income due and accrued	233,330
Uncollected premiums and agents' balances in course of collection	18,478
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,394,343
Current federal and foreign income tax recoverable and interest thereon	20,038
Net deferred tax asset	223,301
Electronic data processing equipment and software	26,710
Total assets	$ 52,300,000

SENTINEL SECURITY LIFE INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2006

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserves for life contracts	$ 26,453,187
Liability for deposit-type contracts	304,103
Contract claims: Life	331,247
Dividends apportioned for payment	22,000
Coupons and similar benefits	900
Premiums and annuity considerations for life and accident and health contracts received in advance	21,253
Interest maintenance reserve	178,845
Commissions to agents due or accrued	152,143
General expenses due or accrued	140,491
Taxes, licenses and fees due or accrued, excluding federal income taxes	20,962
Unearned investment income	17,459
Amounts withheld or retained by company as agent or trustee	167,903
Remittances and items not allocated	3,580
Asset valuation reserve	1,942,177
Total liabilities	$ 29,756,250
Common capital stock	$ 2,516,685
Unassigned funds (surplus)	21,152,579
Treasury stock	(1,125,514)
Total capital and surplus	$ 22,543,750
Total liabilities, capital and surplus	$ 52,300,000

SENTINEL SECURITY LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2006

INCOME	Amount
Premiums and annuity considerations for life and accident and health contracts	$ 5,559,337
Net investment income	3,185,980
Amortization of Interest Maintenance Reserve (IMR)	17,535
Sundry income	9,159
Total revenues	$ 8,772,011
BENEFITS	
Death benefits	$ 2,473,242
Matured endowments	21,633
Annuity benefits	954
Disability benefits and benefits under accident and health contracts	1,540
Coupons, guaranteed annual pure endowment and similar benefits	702
Surrender benefits and withdrawls for life contracts	385,134
Interest and adjustments on contract or deposit-type contract funds	11,820
Increase in aggregate reserves for life and accident and health contracts	790,302
Subtotal	$ 3,685,327
EXPENSES	
Commissions on premiums, annuity considerations and deposit-type contract funds	1,133,970
General insurance expenses	2,396,312
Insurance taxes, licenses and fees, excluding federal income taxes	230,947
Increase in loading on deferred and uncollected premiums	28,856
Total benefits and expenses	$ 7,475,412
Net gain from operations before dividends to policyholders and federal income taxes	$ 1,296,599
Dividends to policyholders	20,662
Net gain from operations after dividends to policyholders and before federal income taxes	$ 1,275,937
Federal income taxes incurred	258,568
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$ 1,017,369
Net realized capital gains or (losses)	251,868
Net income (loss)	$ 1,269,237

SENTINEL SECURITY LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
January 1, 2003 through December 31, 2006

	Per Exam 2003	2,004	2005	Per Exam 2006
Capital and surplus prior reporting year	$ 18,940,542	$ 20,080,428	$ 20,840,880	$ 21,107,776
Net income or (loss)	1,146,592	896,114	994,276	1,269,237
Change in net unrealized capital gains (losses)	886,825	810,481	258,323	295,223
Change in net deferred income taxes	838,219	(198,416)	(268,440)	(9,524)
Change in nonadmitted assets and related items	(746,864)	260,839	269,800	31,031
Change in asset valuation reserve	(442,823)	(507,039)	(313,586)	321,700
Change in treasury stock	(42,325)	(36,229)	(167,182)	(27,104)
Dividends to stockholders	(420,653)	(418,561)	(448,259)	(444,592)
Employee benefit adjustment	(79,085)	(46,741)	759,949	
Employee benefit disbursement			(817,985)	
Rounding		4		3
Net change in capital and surplus	$ 1,139,886	$ 760,452	$ 266,896	$ 1,435,974
Capital and surplus end of reporting year	$ 20,080,428	$ 20,840,880	$ 21,107,776	$ 22,543,750

* Per the regulatory financial statements filed with the Utah Insurance Department.

NOTES TO FINANCIAL STATEMENTS

(1) Capital and Surplus $22,543,750

The Company's minimum adjusted capital requirement, pursuant to U.C.A. § 31A-5-211(2)(a) was $400,000. The Company reported total adjusted capital of $24,496,927 in accordance with U.C.A. § 31A-17-609 and had an authorized control level risk-based capital (RBC) requirement of $1,493,765 in accordance with U.C.A. § 31A-17-605.

SUBSEQUENT EVENTS AND OTHER DISCLOSURES

Effective August 15, 2007, the Company entered into a custodial agreement with Smith Barney, Citigroup Global Markets Inc. (Smith Barney). This agreement was reviewed during examination and it was noted that the agreement did not contain all of the required provisions of U.A.C. Rule R590-178-4. The Department directed the Company to bring this agreement into compliance with U.A.C. Rule R590-178-4, to allow assets that were reported in the 2007 financial statements. Smith Barney was unable to provide a compliant custodial agreement by January 25, 2008.

On January 24, 2008, the Company decided to move the two securities that were on deposit under this agreement as of December 31, 2007, to Wells Fargo Bank N.A. The Examiners confirmed the receipt of the assets transfer on February 4, 2008. On February 11, 2008 another revised agreement was provided for review which complied to U.A.C. Rule R590-178-4. A resolution of the Board of Directors to approve the Smith Barney custodial agreement is required before any assets may be considered admissible in accordance with U.A.C. Rule R590-178-5.

SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

1. The Company was unable to provide the cover letters with the date stamped that the policy forms were submitted and approved by the Department for use, therefore the Examiner was unable to verify compliance with U.C.A. § 31A-21-201(5)(b). The Department recommends a limited scope Market Conduct examination, to ensure all forms in use are filed with the Department. (INSURANCE PRODUCTS AND RELATED PRACTICES – Policy Forms and Underwriting)

2. The Company had two custodial agreements with First Security Bank, N.A., (subsequent name change to Wells Fargo Bank, N.A). The two custodial agreements did not comply with provisions of U.A.C. Rule R590-178-4, as amended on September 19, 2006. Subsequent to the examination date on

December 18, 2007, the Company entered into two new custodial agreements that superseded the old agreements. The Board of Directors passed a resolution to approve the custodial agreements on the same day. These agreements were reviewed during the examination and were found to be in compliance with U.A.C. Rule R590-178-4. (ACCOUNTS AND RECORDS)

3. The minutes of the meetings of the shareholders did not contain evidence that directors' and officers' compensation and benefits were approved by the shareholders as required by U.C.A. § 31A-5-416(2). It is recommended that the Company comply with U.A.C § 31A-5-416(2). (ACCOUNTS AND RECORDS).

4. The Company did not provide timely notification to the Insurance Commissioner of its change in actuary pursuant to U.A.C. Rule R590-162-5 (C). (ACCOUNTS AND RECORDS)

5. Schedule E – Part 3, Special Deposits of the Company' 2006 annual statement reported incorrect amounts of book/adjusted carrying value. (ACCOUNTS AND RECORDS)

6. Exceptions were noted during the reconciliation of Schedule D of the annual statements for the period covered by this examination. (ACCOUNTS AND RECORDS)

7. Contrary to the provisions of SSAP No. 16, Paragraph 3, EDP equipment was being depreciated over a period of five years. (ACCOUNTS AND RECORDS)

8. The Company's minimum adjusted capital requirement, pursuant to U.C.A. § 31A-5-211(2)(a), was $400,000. The Company reported total adjusted capital of $24,496,927 in accordance with U.C.A. § 31A-17-609, and an authorized control level risk-based capital (RBC) requirement of $1,493,765 in accordance with U.C.A. § 31A-17-605as of December 31, 2006. (ACCOUNTS AND RECORDS)

9. Subsequent to the examination date, the Company entered into a custodial arrangement with Smith Barney in 2007. The custodial agreement did not comply with U.A.C. Rule R590-178-4. Assets were transferred into a Wells Fargo Bank custodial account with a new agreement considered allowable in accordance with U.A.C. Rule R590-178-5. Although the agreement was revised in February 2008, which complied with U.A.C. Rule R590-178-4, a resolution of the Board of Directors to approve the Smith Barney custodial agreement is required before any assets may be considered admissible in accordance with U.A.C. Rule R590-178-5. (SUBSEQUENT EVENTS AND OTHER DISCLOSURES)

ACKNOWLEDGEMENT

Actuary Scott S. Garduno, ASA, MAAA and Joseph J. Wallace, Jr., ASA, MAAA of the actuarial firm of Taylor, Walker and Associates performed the actuarial phases of the examination. Brandon C. Thomas, HISP of Huff Thomas & Company performed an information systems review. In addition, William Stimpson, market conduct examiner and Hermoliva Abejar, financial examiner, participated in the examination representing the Department. Colette M. Hogan, CFE, Assistant Chief Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

Aejaz Ahmed Palejwala, CFE
Huff, Thomas & Company
Representing the Utah Insurance
Department